PwC’s 26th Annual Global CEO Survey

A view from East Africa

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Winning today's race while running tomorrow's" was the theme of PwC's 26th Annual Global CEO Survey[1] which polled 4,410 CEOs in 105 countries and territories in October and November 2022 ("Global CEOs").

Of the total number of CEOs surveyed, 138 were based in East Africa. These CEOs believe that the economic situation in their countries will improve, whilst the global results reflect the opposite with an expectation of a decline in the economic growth in their countries. In addition, global CEOs worry more about being exposed to macroeconomic volatility (GDP and economic cycle, unemployment) in the next five years and East Africa CEOs worry about inflation in both the short and medium term. Moreover, global CEOs consider changing customer preferences more of a disruptor to industry profitability in the next 10 years, whereas East Africa CEOs rank technological advancement highest.

Takeaways

- East Africa CEOs are optimistic about the future. They foresee good economic growth in both the short and medium term for the region.
- Even with the high level of optimism, the CEOs do recognise that there are threats to the region's economic growth, with inflation ranking highest. Even so, the majority of these CEOs believe that their businesses will be economically viable in the next decade. This may be because of the trust they place on their mitigating actions.
- The CEOs are looking out for potential disruptors in their respective industries and technological advancements/ changes rank highest in that category. The uptake of technology in the region comes with risks such as cyber security breaches which may be the reason why the CEOs highlight cyber security as one of the main threats their businesses and economy are exposed to.

1. https://www.pwc.com/gx/en/issues/c-suite-insights/ceo-survey-2023.html

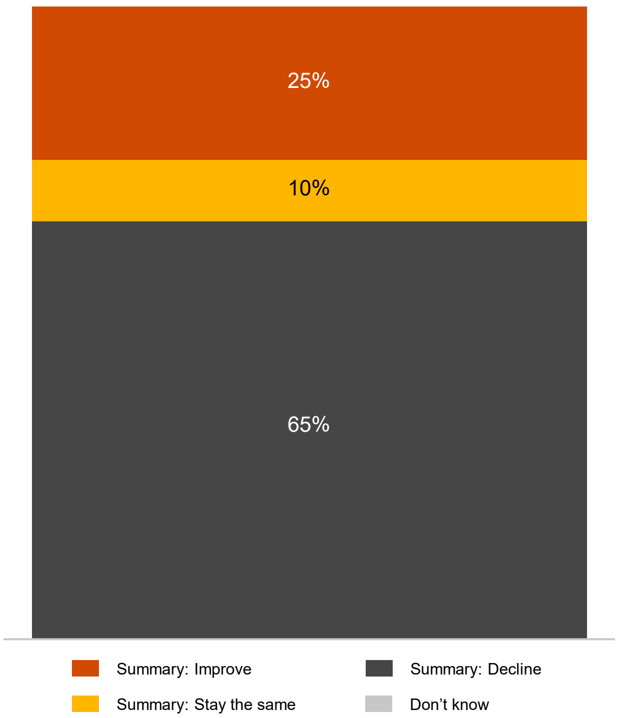
Growth prospects in the East Africa region

Sixty-five percent of the East Africa CEOs surveyed indicated that they believed the global economy will decline over the next 12 months, with the International Monetary Fund (IMF) sharing the same sentiments and predicting global economic growth to decline by half a percent in 2023. Surprisingly, 60% of the CEOs are optimistic about economic growth and they expect their country's GDP to grow in the next 12 months.

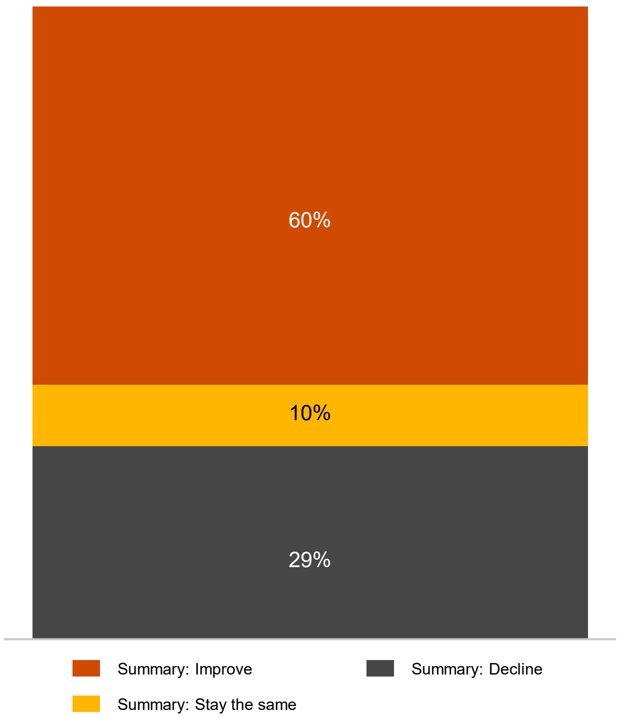
This optimism mirrors the outlook in the African Development Bank's (AfDB) January 2023 Macroeconomic Performance and Outlook report. It estimated that growth in East Africa will moderate to 4.2% in 2022 from 5.1% in 2021, and then rise to 5.0% in 2023 and 5.4% in 2024. It noted that *"while the production structure is relatively diversified, countries in the region are largely net importers of commodities and bear the brunt of high international prices in addition to recurrent climate shocks such as drought, particularly in the Horn of Africa"*. Its projected average growth rates for East African countries in the years 2023 to 2024 include: Rwanda 7.9%, Ethiopia 6.0%, Uganda 5.9%, Tanzania 5.6%, Kenya 5.4%, Burundi 4.4%, South Sudan 2.2%. The growth in Rwanda and Ethiopia is seen as underpinned by infrastructure spending, and in Uganda on the back of developments in the oil sector.

In addition to the optimistic economic growth outlook, CEOs are very confident of their respective company's prospects for revenue growth both in the next 12 months (55%) and the next three years (62%).

Global economic growth



Territory economic growth

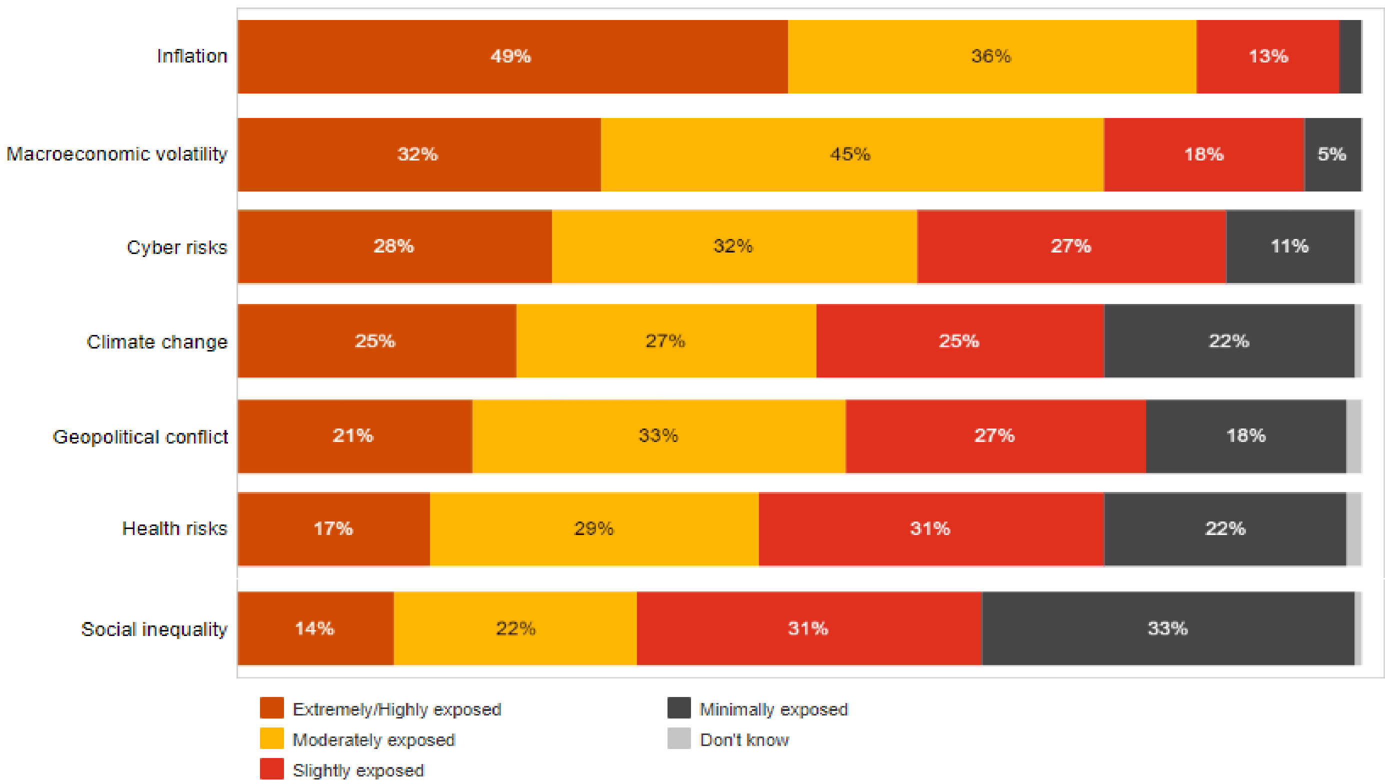


Threat exposure

CEOs in East Africa are most concerned about their exposure to rising inflation, macroeconomic volatility, climate change and cyber risk in the next 12 months and five years. Inflation is a key concern for these CEOs, as 49% of them indicated that they believe their companies will be highly exposed to this global challenge in the next 12 months.

According to the AfDB's January 2023 Macroeconomic Performance and Outlook report, the region's inflation averaged 25.3% in 2022, impacted in particular by large price increases in Sudan and Ethiopia, and was the highest amongst all African regions. The AfDB's projected average inflation rates for East African countries in the years 2023 and 2024 include: Tanzania 5.1%, Kenya 6.0%, Uganda 6.2%, Rwanda 6.7%, Burundi 9.5%, South Sudan 14.2%, Ethiopia 24.1%. Therefore, it is no surprise that inflation ranked highest in the exposure to key threats category noted by the CEOs both in the short and medium term.

Threat Exposure



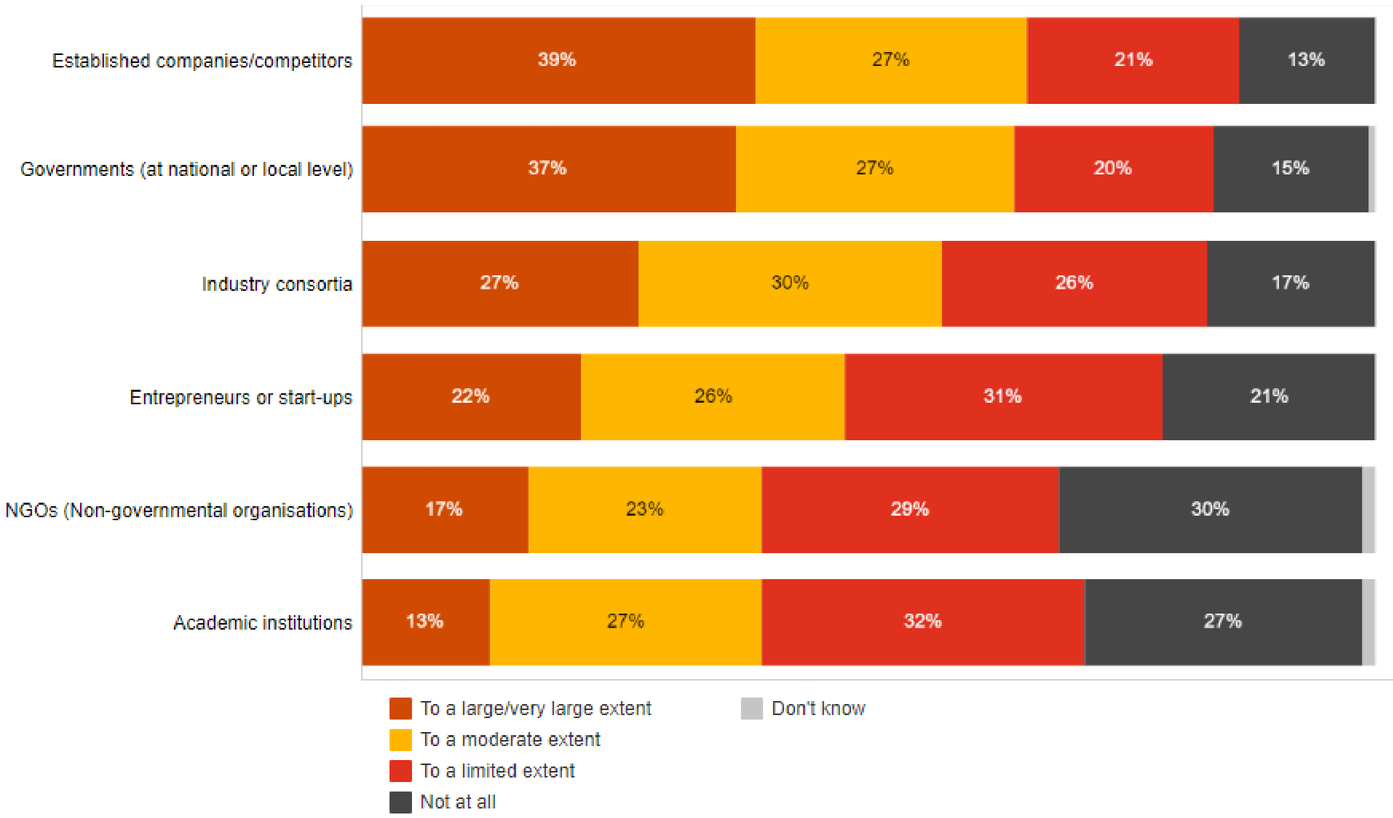
Planned mitigating actions:

Macroeconomic volatility:

To overcome economic challenges and volatility, 37% of the CEOs surveyed indicated that they are partnering with government at national or local level to create new sources of value. A further 48% indicated that they were partnering with entrepreneurs / start-ups to a moderate, large or very large extent.

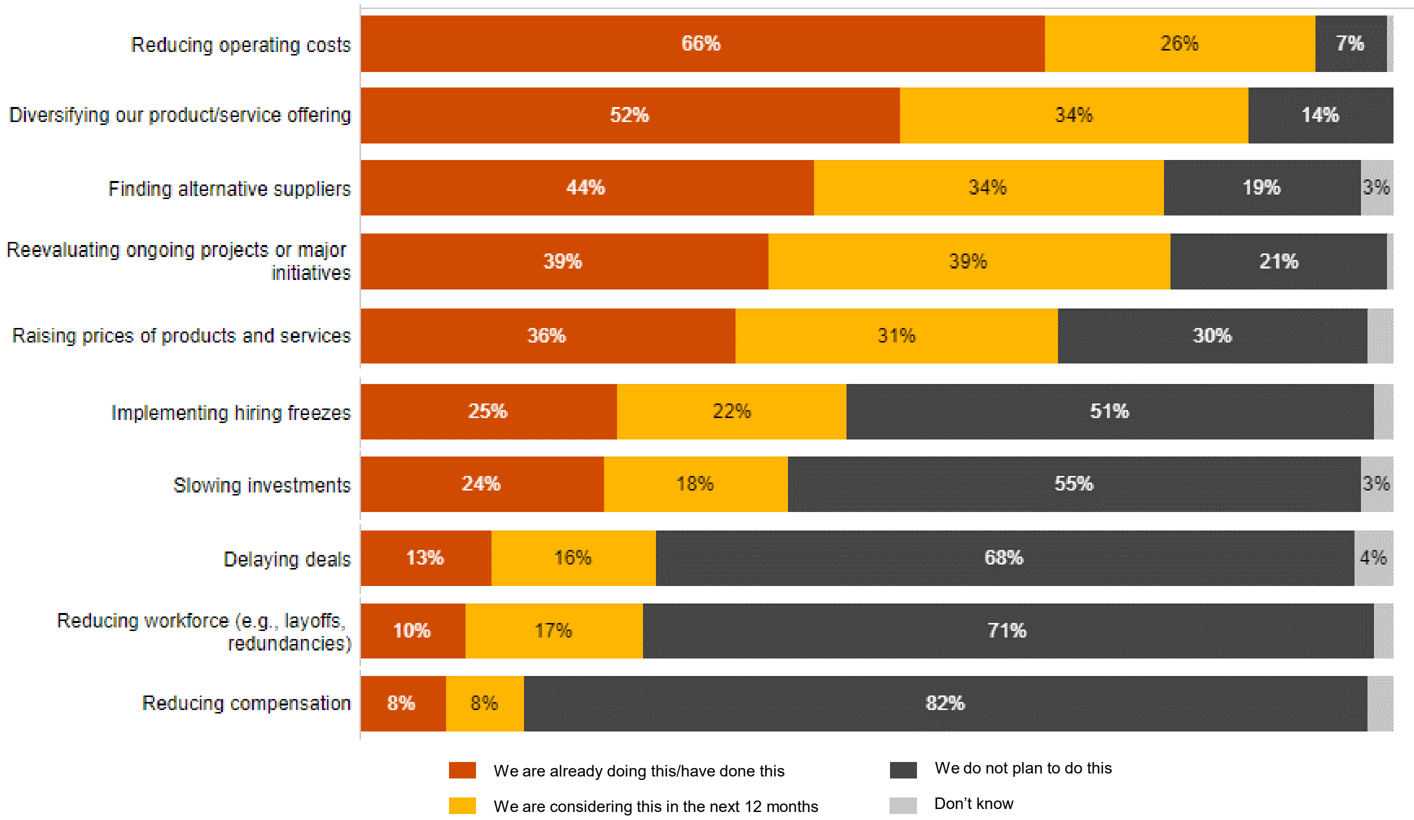
The World Economic Forum highlighted Kenya as one of the only four African countries that currently receive 92% of all the continent's investment in technology - the other three being Nigeria, Egypt and South Africa. Over a third (39%) of the CEOs polled indicated that they are collaborating with competitors and industry peers to a large and very large extent to create new sources of value.

Radical collaboration to create new sources of value



In addition, 66% of the CEOs surveyed are making an effort to reduce operating costs for the next 12 months in order to mitigate against potential economic challenges and volatility. A further 52% are looking at diversifying their product or service offerings while 44% are finding alternative suppliers for their businesses.

Actions considered to mitigate against economic challenges and volatility in the next 12 months



Workforce management:

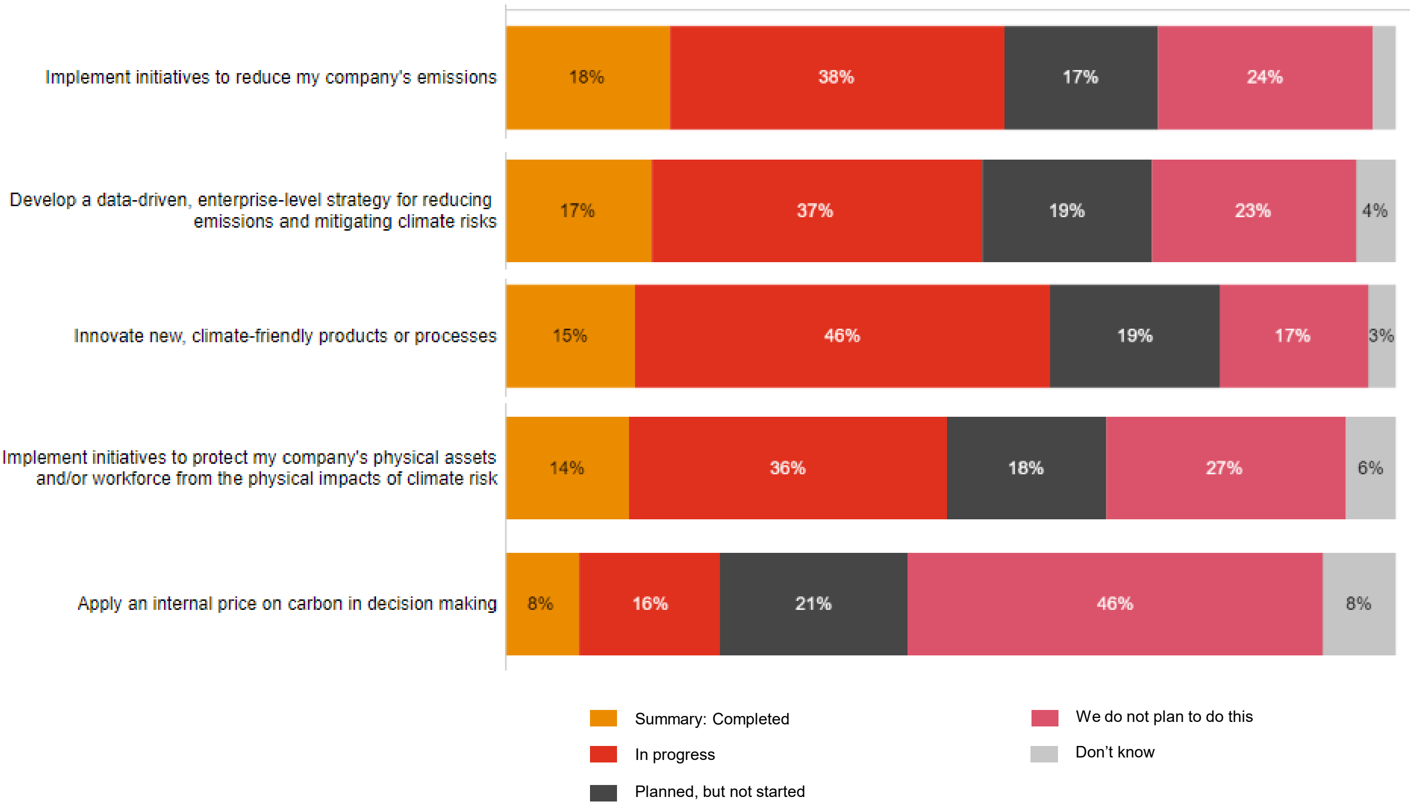
Over a third of the CEOs believe that employee resignation/ resignation rate will not change in their companies in the next 12 months. In addition, as plans to mitigate against potential economical volatilities, 71% are not looking to reduce their workforce whilst 51% are not planning to implement hiring freezes in the same period. These CEOs place an emphasis on keeping their workforce as the foundation to building their businesses, as such 82% are not even planning on reducing compensation for their employees.

Climate change and sustainability:

In the next 12 months, the majority of CEOs see climate risk impacting their cost profiles and supply chains more than their physical assets. More than half of the CEOs surveyed have indicated that they either plan to or are in the process of developing a data driven, enterprise-level strategy for reducing emissions and mitigating climate risk. The same proportion of CEOs also stated that they have planned to or are in the process of implementing initiatives to protect their company's physical assets and/or workforce from the physical impact of climate change. While CEOs don't expect their supply chains to be impacted, 66% said that they plan to or are in the process of creating innovative, climate friendly products or processes.

Only 18% of the CEOs surveyed indicated that they had completed initiatives to reduce their company's emissions, indicating that while the plans exist there are still barriers to progression and completion.

Preparations for climate risks



Cyber and technology:

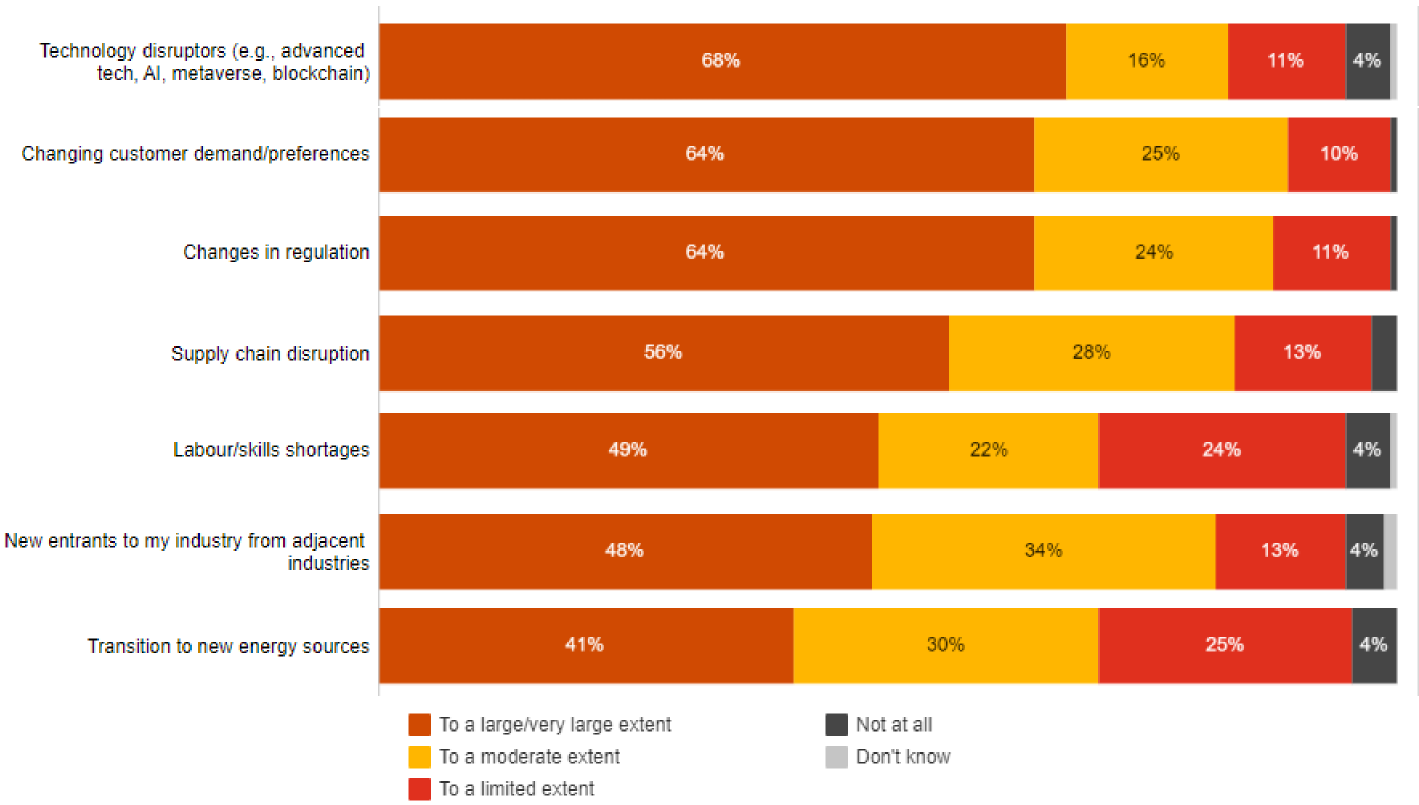
Almost a third of the respondents said that their company will be highly and extremely exposed to cyber risks in the next five years. Cyber security breaches have increased across the East African Community due in large part to the rapid adoption of technology. Majority of the CEOs indicated that they will be investing in automating processes and systems, upskilling the workforce in priority areas and deploying technology in the next 12 months.

Potential disruptors to profitability in their industries over the next 10 years.

Although more than half of the surveyed CEOs believe that their companies will remain economically viable even more than 10 years from now, they do take note of potential disruptors that might affect that trajectory. The CEOs surveyed rank Technological disruptors highest (68%) with the potential to disrupt the industry in which they operate in. Technology disruptors is followed by Changes in regulations (64%) and Changing customer demands/ preferences (64%). Changes in customer preferences is a result of many factors like urbanisation, the growth of the middle class and the adoption of ICTs.

In addition, the pandemic has accelerated digital adoption and transformation both for consumers and companies in Africa which has a direct impact on demand and supply. According to Boston Consulting Group, the shift to or adoption of ICTs is more apparent in the banking sector and this has already affected how consumers behave.

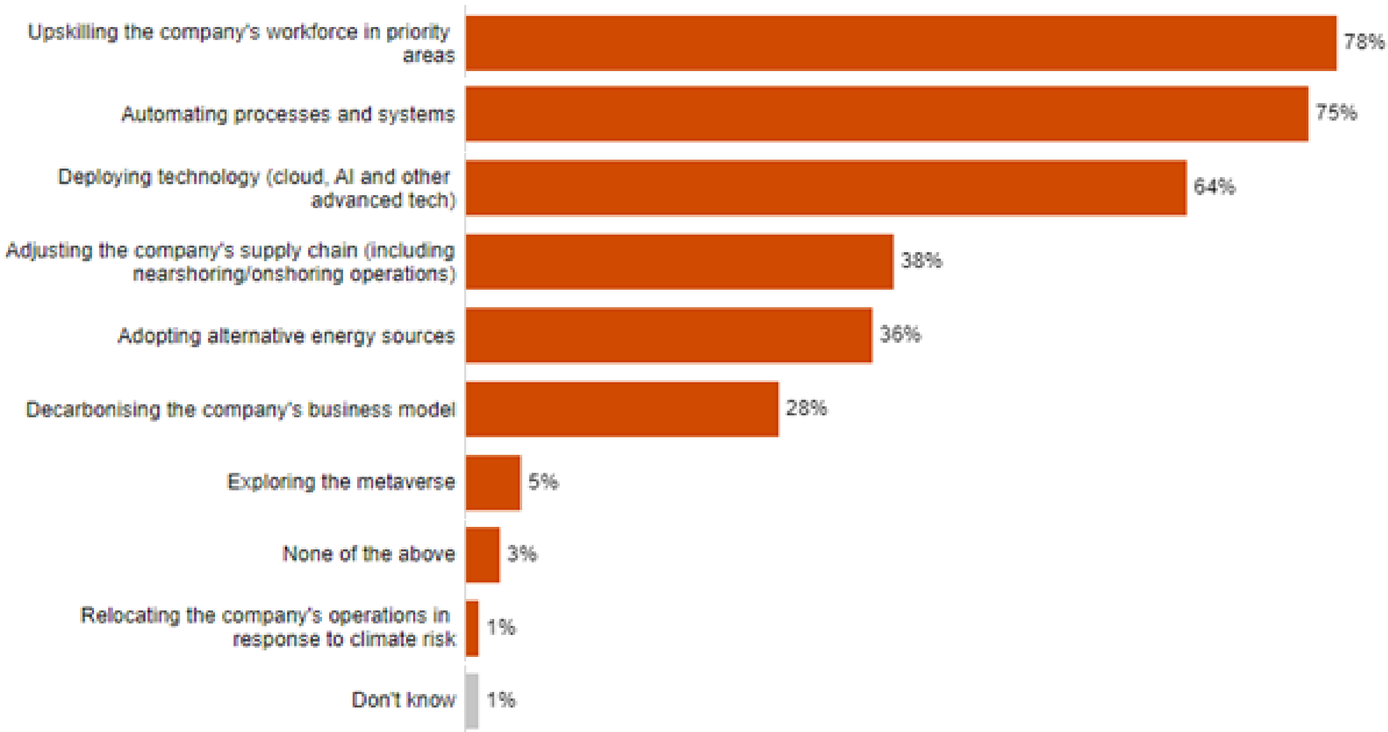
Disruptors to industry progress



Types of investments CEOs will be making in the next 12 months

East Africa CEOs indicated that they will prioritise investing in Upskilling of their company's workforce (78%) in the next 12 months. In addition, in the same timeframe they are planning on investing towards Automating processes and systems (75%) and Deploying technology (64%). Across all the highlighted investment areas or types of investments the CEOs will be making, majority of them indicated that they will be allocating the bulk of the investments to reinventing their businesses for the future.

Potential investment areas



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